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OPERATIONS COORDINATING BOARD
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October 11, 1954

MEMORANDUM FOR THE OPERATIONS COORDINATING BOARD

SUBJECT: Special Report on Proposed U. S. Position for the
Rio Conference - Working Group on NSC 5432/1.

The attached special report of the working group on NSC 5432/1 is transmitted as a basis for discussion at the October 13 meeting of the status of U. S. policy preparations for the Rio Conference in light of OCB's responsibilities under NSC 5432/1. Mr. Henry F. Holland, Assistant Secretary of State for Inter-American Affairs, and Chairman of the Cabinet Committee on the Rio Conference, and a representative of the Treasury Department will be present for the discussion.

Elmer B. Staats
Elmer B. Staats
Executive Officer

Attachment:

Special Report on Proposed U. S.
Position for the Rio Conference,
dated 10/11/54.

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SPECIAL REPORT ON PROPOSED U.S. POSITIONS FOR
THE RIO CONFERENCE

October 11, 1954

A subcabinet committee is now preparing proposed U.S. position papers for the conference on U. S. - Latin American economic relations to be held at Rio de Janeiro starting November 22, 1954. While the papers are still undergoing revision, it is understood that the committee has decided upon the general policies which they reflect. The Working Group has studied the proposed position papers in the light of NSC 5432/1. The purpose of this report is to call to the attention of the OCB cases in which the Working Group believes the proposed positions fall short of carrying out adequately the objectives and policies of NSC 5432/1.

I. General Need to Reflect a Broadened and More Constructive Policy

The Working Group understands NSC 5432/1 to envisage a broadened, more constructive and more affirmative U. S. economic policy toward Latin America as an essential measure for achieving basic U. S. objectives in that region. It is the opinion of the Working Group that, in the over-all, the presently proposed subcabinet position papers do not provide such an affirmative economic policy. The considerations which we have relied on in forming this judgment are these:

a. If the policies enumerated at Rio are to be successful in promoting basic U.S. objectives, as set forth in NSC 5432/1, they must: (1) actually make an effective and substantial contribution to the improvement of economic conditions in Latin America; (2) convince the predominant, reasonable elements in Latin America that the U. S. is genuinely interested in promoting the welfare and progress of that region.

b. Hemisphere solidarity may be jeopardized if the U.S. evades or procrastinates. Latin America will press for, and U.S. should try as far as possible to give forthright answers to Latin American proposals either by accepting them, rejecting them or offering realistic alternatives.

c. While Latin America may propose many changes in U. S. policy, the predominant, reasonable elements in Latin America will not expect the U. S. to accept all of those new policies. These

TOP SECRET

of 4 pages

elements, however, will not be satisfied with what they would consider simply a reaffirmation of present U. S. policies. To convince those elements that the U. S. is genuinely interested in promoting the welfare and progress of that region, the U. S. must broaden and clarify some of its present policies.

The Working Group believes that the U. S. position for the Rio Conference should be made more effective by taking a more positive stand regarding U. S. assistance to national and regional efforts for economic development.

In particular, the Working Group believes that the present position papers do not adequately carry out specific courses of action outlined in NSC 5432/1 which would serve this end. Examples are listed in Section II of this memorandum.

II. Need to Carry out Specific Courses of Action Outlined in NSC 5432/1

a. Paragraph 9 c. of NSC 5432/1 states that, only if stable, long-term trading policies by the U. S. and financing of sound economic development projects by private capital, IBRD and EXIM Bank prove inadequate, the U. S. should finance through development assistance loans the initiation or acceleration of projects in the U. S. interest.

The presently proposed subcabinet position is that the U. S. will give no indication of the possibility of U. S. development loans outside the EXIM Bank at the Rio Conference, but will simply reaffirm its present policy that the U. S., through the EXIM Bank, will supplement the lending of the International Bank to the extent necessary to fulfill all applications meeting the criteria enumerated by Secretary Dulles at Caracas.

FOA, for example, plans to propose the following to the subcabinet committee as a substitute position:

"The United States, through the Export-Import Bank, will supplement the lending of the International Bank for economic development purposes to the extent necessary to satisfy all applications for loans meeting the criteria enumerated by Secretary Dulles at Caracas. In addition the U. S. should offer to match funds up to \$100,000,000 for the establishment of a Latin America Bank for economic development which would be under Latin American management and would make loans for projects not eligible for IBRD or Export-Import Bank financing.

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There is an apparent difference as to interpretation of paragraph 9 g. which is important to the position to be taken at Rio. Under one view, it can now be said that the other sources are inadequate--particularly since the EXIM Bank charter apparently permits financing only projects involving the export of U. S. capital--and that, under paragraph 9 g., the U. S. should now undertake to finance development projects in the U. S. interest which are not financed by EXIM Bank or other sources. The other view is that paragraph 9 g. contemplates a substantial test period in which to determine the adequacy of the other sources before the U. S. considers providing development loans outside present EXIM Bank policies.

The Working Group believes that U. S. economic policy toward Latin America would be made more constructive and effective, as envisaged by NSC 5432/1, if an interpretation were made that the U. S. is now prepared, under specified conditions, to provide development loans for projects not eligible for EXIM Bank financing, and if this position were announced at Rio.

b. Paragraph 9 g. of NSC 5432/1 states that the U. S. should:

"g. Consider sympathetically, but only on individual merit, any proposal by Latin American initiative to create regional economic actions and groupings to promote increased trade, technical cooperation and investment, and to concert sound development plans."

It is anticipated that the Latin American nations will offer at Rio a number of proposals for regional economic actions and groupings to promote trade and development. The Working Group questions whether the positions recommended by the subcabinet committee regarding such anticipated proposals, or similar proposals suggested by U. S. agencies, reflect the "sympathetic consideration" which paragraph 9 g. contemplates.

The committee, for example, rejected a proposed U. S. position favoring establishment of a Latin American Bank for Economic Development to which the U. S. would match up to \$100 million of the original capital contributed by Latin American individuals or governments but would leave the management in Latin American hands. The committee also rejected a proposed U. S. position favoring the establishment of a regional Payments Union to which the U. S. would loan \$50,000,000 for the initial swing account.

The two regional actions which the subcabinet committee has decided to favor are: (1) annual regional discussions of development programs and (2) discussions of possible hemisphere preferential trade arrangements.

~~TOP SECRET~~3
of 4 pages

~~TOP SECRET~~

The Working Group questions whether the predetermined positions on regional actions to promote trade and development, which appear largely to be negative, are adequate to meet the intent of paragraph 9 g. of NSC 5432/1.

c. Subsequent to the preparation of the position papers by the subcabinet committee, NSC 5432/1 was approved by the President. Courses of action enumerated therein included paragraphs 9 d. and 9 h., the contents of which were not found in the older policy paper on this area (NSC 144/1). It is, of course, anticipated that the subcabinet committee will take under consideration the utilization of the authority in the Agriculture Trade Development and Assistance Act of 1954 (paragraph 9 h.). Along these same lines, the delegation should be provided with concrete proposals for increased specialized training of Latin Americans in the U. S. in the fields of finance, labor, management, agriculture, business and other specialized fields as a means of achieving economic development in the area (paragraph 9 d.).

Recommendation: The Working Group recommends that the OCB consider whether the proposed U. S. positions for the Rio Conference fall short of the objectives and policies enumerated in NSC 5432/1, and that it advise the subcabinet committee of any shortcomings of the presently proposed positions.

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4
of 4 pages

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